# UNCTAD BULLETIN

MARCH – APRIL 1991 NUMBER 8

***IN THIS ISSUE***


- Mr. Dadzie on the Middle East and Trade Issues
- Technical Co-operation in the Area of Commodities
- Developing Country Auto Industry's Export Success
- Conference Preparations Take Shape
- New Board President
- Reviews on Least Developed Countries Annual Report 1990; Technical Co-operation for Trade and Development; Energy Law
- Notes on Technology Workshop; South-South Trade; UNCTAD Official's U.N. Appointment; UNCED Prepcom; ASYCUDA Training Courses


UNITED NATIONS CONFERENCE
ON TRADE AND DEVELOPMENT

# EDITORIAL

**A common feature of many opening statements at the March meeting of UNCTAD's Trade and Development Board was the importance attached by member States to the forthcoming eighth session of UNCTAD. A typical sentiment was expressed by the spokesman of the developed market-economy countries who referred to the Conference as "a major economic meeting" which could "give new impetus to solidarity and partnership between the developed and the developing countries". Not so long ago, on UNCTAD's twenty-fifth anniversary, member States reaffirmed their belief in the organization's continuing relevance as an instrument of international co-operation and negotiation, and unanimously pledged their political support.**

**Such public professions of faith in UNCTAD constitute a recognition of the efforts which the organization has made to adapt to new realities. They should not, however, be allowed to induce a sense of self-satisfaction, still less one of complacency. For, in a world which is undergoing profound political and economic changes, the institutional framework of which UNCTAD forms part will have to evolve in response to these changes. Indeed, the process which has just been set in motion by the General Assembly designed to restructure the economic and social activities of the United Nations is an important step in this direction.**

**It is to be hoped that this reappraisal of institutional functions will include among its objectives a more rational division of labour, in the first instance among the components of the United Nations, of which UNCTAD is one, but also in the system of specialized agencies of the United Nations. For UNCTAD this could be an opportunity to intensify its analytical work on such topics as the interrelationships between trade, investment, technology and services and between development and the environment. This would enhance its capacity to produce innovative thinking and, in turn, add weight to UNCTAD's voice in international fora. It would also enable the United Nations as a whole to make a more significant contribution to international co-operation in these crucial areas. At the same time the organic link between UNCTAD's research and technical co-operation activities would be strengthened.**

**Achieving the increased operational effectiveness which a sharper analytical focus in UNCTAD should make possible would require changes in the secretariat and in the intergovernmental machinery. The nature of these changes would, of course, depend on what use governments wish to make of UNCTAD in the years ahead. An early decision on this matter is desirable. The objective for UNCTAD VIII, therefore, must be to go beyond enlarging the area of consensus with regard to the issues on the agenda; it should also be to determine what role UNCTAD is to play within the United Nations system in the pursuit of a healthy, secure and equitable world economy.**

*The United Nations Conference on Trade and Development (UNCTAD) was set up by the General Assembly in 1964 as one of its permanent organs, mandated to promote international trade, particularly that of developing countries, with a view to accelerating their economic development. UNCTAD has evolved into a universal forum with a development perspective, in which member States review the interdependence of economies and of issues in trade, money and finance. UNCTAD is composed of 166 member States, including the 159 members of the United Nations; many intergovernmental and non-governmental organizations have observer status. The Conference normally meets every four years at ministerial level to establish policy guidelines. Between sessions, work is carried out by the Trade and Development Board and its standing committees dealing with commodities, manufactures, tariff preferences, development finance and insurance, shipping, transfer of technology and economic co-operation among developing countries, and by other subsidiary bodies. The problems of the least developed countries and of Africa's economic recovery receive special attention in UNCTAD's work. The UNCTAD staff–part of the United Nations Secretariat–numbers about 400 and is headed by a Secretary-General, currently Mr. Kenneth K. S. Dadzie (Ghana).*

*The "UNCTAD Bulletin" is published six times a year in English and French for public information. It is not an official record. Material may be freely quoted or reprinted, but acknowledgement is requested. The Bulletin may be obtained free of charge from the Policy Development and Communication Service of UNCTAD, Palais des Nations, 1211 Geneva 10, Switzerland. Tel. (4122) 734 60 11, ext. 5716/4085. Telex 41 29 62. Fax 733 65 42.*
*Michael C. Bonello, Editor*

## MR. DADZIE ADDRESSES BOARD ON MIDDLE EAST, TRADE ISSUES

Addressing the Trade and Development Board at the opening of its spring meeting on 11 March, the Secretary-General of UNCTAD, Mr. K. K. S. Dadzie, stated that the construction of peace in the Middle East calls for the wisdom of building economic security as a complement to political security. Expressing the belief that the United Nations can help build confidence in new political and security arrangements and establish the economic underpinnings of peace, Mr. Dadzie said, "A special concerted effort is called for both to meet all reconstruction needs–whether resulting from this war or from previous crises and natural calamities–and over time to foster mutually beneficial economic linkages. The interplay of geography, history and culture can and must be turned into a positive force; perhaps the time has come to think in terms of a common and larger Middle East house stretching from the Mediterranean to the Hindu Kush and from the Caucasian mountains to the Arabian Sea."

Such a programme should be supported by the reinforcement of existing mechanisms and by a new forum "to build the fabric of economic interlinkages, including multinational projects in such sectors as investment, trade and transport. Sources of financing are or should be available within the area both where national savings are traditionally in excess of domestic requirements, and from the progressive reduction of military expenditure as a result of the reduction of tensions. In addition, external bilateral and multilateral finance would be indispensable."

Mr. Dadzie went on to say that remedial action beyond such a programme should be extended to the many countries, including least developed ones, that have been exposed to the negative effects of the recent conflict. In his view, "Appropriate domestic and international policy responses must include even stronger reform efforts, which must be supported by international co-operation towards vigorous growth in the world economy and lower interest rates, as well as larger scale financial assistance lodged in a multilateral framework and based on strictly economic criteria. Moreover, the underlying problem of oil price volatility remains to be addressed, preferably through joint efforts by producers and consumers to establish a framework which would help guide market behaviour in a way more consistent with fundamentals. These issues, too, must be high on the current international agenda."

Mr. Dadzie concluded that it is in response to the tragedy in the Middle East itself, however, "that a new vision is particularly needed, a vision that could set aside the heritage of conflict and bitterness and build a new future for all."

**Protectionism and Structural Adjustment**

Commenting on the trade issues on the Board's agenda, Mr. Dadzie first reiterated the importance of a timely and balanced outcome of the Uruguay Round which integrated the development dimension. Looking beyond the Round, he stressed that trade liberalization efforts should be supported by actions in other areas and forums. Such actions should be designed to improve the co-ordination of macro-economic policies, to reduce debt burdens, to strengthen commodity markets and food security, and to translate environmental concerns into policies which are supportive of trade and development. He pointed out that the whole range of these issues would be dealt with by UNCTAD VIII.

Referring to the Board's annual review of protectionism, Mr. Dadzie said that this was of the greatest importance at a time when a large number of developing countries have taken measures to open their economies to international trade and to give exports a more prominent role in their development strategies. He expressed concern about the increasing incoherence between such policy changes in developing countries and protectionist policies in developed countries. It was questionable whether many developing countries would see the pursuit of free trade policies as serving their best interests, if managed trade, tiered preferences and inward-looking trade blocs prevailed over the revitalization of the multilateral trade system. Furthermore, the elimination of protectionism in the developed countries must be complemented by governmental policies, worldwide, which facilitate adjustment to structural change and by support for developing countries to enable them to take advantage of such change.

The market-oriented reforms being implemented in Eastern Europe have added a new dimension to this challenge. "There will be considerable short-term costs" to this process, Mr. Dadzie stated, "not only for the reforming countries themselves but also for the trade of developing countries, some of whom are already experiencing export reductions". If the

developing countries were to share in the expected long-term benefits of the trade liberalization in Eastern Europe, "they will need support in gaining access to the new market opportunities in countries of Eastern Europe". The reform process would be long and difficult. It would require specific assistance by the international community. Such assistance, however, "should be additional to existing–and it is to be hoped increasing–flows of development finance".

Another major policy issue raised by Mr. Dadzie is the need to address in a coherent conceptual and institutional framework the complex interrelationships that exist between foreign direct investment, trade, technology and services. While the latter three, together with resources for development and commodities, had been singled out in the UNCTAD VIII agenda, foreign direct investment was also implicit in that agenda according to Mr. Dadzie. The operations of transnational corporations well illustrated the complexity of the links between trade, foreign direct investment, the globalization of economic activity, the transfer of technology to developing countries, and the services problematique.

**Board Discusses Trade Issues, Takes Action on Other Items**

The Board's review of protectionism and structural adjustment did not result in an agreed document but delegations did, however, engage in a substantive exchange of views on recent developments in this area and on the Uruguay Round negotiations. In addition to the regional groups, 20 individual countries as well as the IMF took the floor. Developing countries tended to take the view that the slowdown in the growth of world trade and output in the 1980s, notably in the developing countries, was largely attributable to the intensification of protectionism in the major world economies, both in the area of tariffs and of non-tariff measures. They also expressed the fear that this trend could be worsened by the emerging free trade agreements among developed market-economy countries and the granting by them of preferential status to countries in Eastern Europe.

The developed market-economy countries, on the other hand, thought that the slowdown in world trade should not be dramatized. They had resisted attempts to introduce protectionist measures that would be detrimental to the expansion of world trade and contrary to a sound, market-oriented trading system. In this context, there was some criticism of the secretariat document on this subject which, these countries believed, assigned the responsibility for protectionist pressures almost exclusively to them and did not adequately analyse the situation in developing countries, particularly with regard to obstacles to South-South trade. Among other speakers, delegations from countries in Central and Eastern Europe informed the Board of recent policy developments in their transition to a market-oriented economy.

On the last day of the meeting, the Board adopted two resolutions and one decision on other agenda items. The first resolution emphasizes "the imperative need for the implementation of the Programme of Action for the Least Developed Countries (LDCs) for the 1990s by all parties as a matter of urgency." It also expresses deep concern at the adverse consequences of unforeseen external developments on the economies of the LDCs and urges the development partners of these countries to provide support and assistance.

The other resolution represents UNCTAD's intergovernmental input into the General Assembly's Final Review and Appraisal of the Implementation of the United Nations Programme of Action for African Economic Recovery and Development (UN-PAAERD). The Board recognized that a four-year period is a short span for dealing with economic recovery and transformation in Africa and recommended that the continuation of African and international efforts within the Programme's objectives be considered. While reaffirming the primary responsibility of African countries for their economic recovery and development, the Board urged the international community to provide additional resource flows and to encourage an increased flow of foreign direct investment into Africa.

The Board also adopted a decision concerning the dates and location of UNCTAD VIII. Details are given in the article on p. 11 of this *Bulletin*.

## TECHNICAL CO-OPERATION IN THE AREA OF COMMODITIES

UNCTAD has the primary responsibility within the United Nations system for international commodity policy and commodity trade. In this role it has promoted the negotiation of international commodity agreements and co-operation among producers and consumers in an attempt to stabilize market conditions for a wide range of primary commodities of vital importance to developing countries. Early progress in this endeavour, such as the adoption of the Integrated Programme on Commodities in 1976

and the agreement to establish the Common Fund in 1980, designed to finance price-stabilization programmes and promote the development of the commodity sector, has been overshadowed by the commodity crisis of the 1980s, brought about by a combination of cyclical and structural factors. These have led to a situation in which excess supply conditions prevail even when commodity prices continue to fall.

This situation clearly calls for a novel response by commodity-producing developing countries. UNCTAD's support for these countries has accordingly taken account of this radical change in market conditions. This is reflected in the organization's analytical work and in its technical co-operation programme. This seventh article in the current series describes its technical co-operation activities in the area of commodities.

**Diversification, Processing, Marketing and Distribution**

Commodity exports constitute the major source of foreign exchange earnings for most developing countries, and commodity production and related activities account for a large part of their gross national product. Eighty-one of the 146 developing countries and territories rely on non-fuel commodities for at least 50 per cent of their export earnings, and of these 39 are least developed countries for most of which commodity exports represent over 80 per cent of export earnings. Such a high degree of commodity dependence makes these countries very vulnerable, so that world commodity market conditions and the manner in which the natural resource base is utilized are key determinants for economic growth and development. At the same time, if their vulnerability is to be reduced, these countries need to broaden their economic base, both in terms of production and exports. This may be achieved through diversification efforts, including the further processing of commodities. Moreover, the creation of backward and forward linkages between the commodity sector and the rest of the economy, which are a by-product of such efforts, helps to provide the basis for industrialization.

The Final Act of UNCTAD VII in 1987 had recognized the importance of intensified co-operation between producers and consumers in this area and agreed that UNCTAD should assist through its technical co-operation programmes. On the basis of this mandate the secretariat has initiated a substantial programme whose objectives are the following: to improve the capacity of developing countries to formulate and implement policies for the export of their commodities; to adopt diversification programmes and projects;

**DONOR SUPPORT GROWS**

UNCTAD's technical co-operation programme, worth US$ 22 million in 1990, is largely funded by UNDP, but contributions from individual countries are on the increase. Two new agreements with donor countries were signed in February.

- Italy, which in 1989 was the first country to provide UNCTAD with a yearly overall allocation through a trust fund arrangement, has contributed a further US$2.2 million. Of this amount, US$500,000 have been earmarked for three new activities in 1991, viz. technical work to help carry out the recommendations of the Craxi Report on debt; help to the least developed countries (LDCs) in implementing the Paris Programme of Action for the 1990s; and the development of training material through UNCTAD's TRAINFORTRADE programme to enable developing countries assess the impact on their trade of the 1992 Single European Market. The remainder of the funds will be used for projects initiated in 1990 with the earlier instalment. These are related to improving the procurement of food in food-importing developing countries; extending the UNCTAD Automated System for Customs Data (ASYCUDA) to capture transport data and to help countries introduce trade facilitation measures; assistance with trade policy formulation; streamlining trade-related public enterprises in low-income countries; and improving debt management in African debtor countries.
- The Netherlands have pledged a contribution of about US$550,000 to UNCTAD's research and technical co-operation activities in 1991 as the first step in a multi-year programme which will make the country one of the major donors. It is also the first time that a Dutch contribution is the subject of a formal arrangement, in which provision is made for regular and structured consultations between the two parties on the formulation, implementation and monitoring of selected projects. Over one fourth of the contribution, US$155,000, will be allocated to the LDCs, especially in Africa, for debt management assistance. A further US$121,000 have been earmarked to help in elaborating policies to implement the Paris Programme of Action for LDCs. Other projects include research on environmental aspects of trade; training in port tariff management, technical co-operation activities in the field of restrictive business practices; and studies on international monetary and financial issues.



READEX FICHE

to promote the processing of commodities before export; to increase the participation of developing countries in international marketing systems for commodities; to obtain and utilize necessary information to facilitate investment decisions; and to improve the ability of developing countries to participate effectively in international negotiations on commodities.

At the operational level UNCTAD offers a number of services to governments upon request. With regard to commodity export policies, for example, it can carry out studies on selected issues, including analyses of the evolution of the various commodity markets; exchanges of experience on aspects such as the liberalization of export marketing systems and the respective roles of the State and of enterprises in the export of commodities; the implications for export policies of utilizing commodity exchanges and other mechanisms for international trade; and the impact of changes in international marketing systems on national export policies. The objective of these activities is to contribute to improved market transparency and help policy-makers in the developing countries to formulate their commodity policies.

As for individual commodities, UNCTAD organizes consumer/producer meetings, to negotiate, or to renegotiate where feasible, international commodity agreements or arrangements for individual commodities and to exchange views and information on the market situation of specific commodities. It also publishes statistical and other information, including market reviews.

At the sectoral level useful experience has been obtained through the MINDEV project, which was initiated in 1988 with the objective of assisting developing countries in the planning of their mineral sector programmes. More specifically, it seeks to identify policies or instruments which are most likely to advance the integration of this sector into the economy as a whole and thus promote a broader-based and eventually self-sustaining process of development. The project comprises several elements: a descriptive and quantitative analysis of the mineral sector at the country level in a large number of countries; a more in-depth analysis of several countries with an important non-fuel minerals sector. Work is already under way on Chile, the Dominican Republic, Indonesia, Morocco, Peru and Zimbabwe; the organization of three regional seminars for government officials concerned with policy formulation for the mineral sector. The seminars for the Latin American region and for the Asian/Pacific region have been held while that for the African region is being prepared; the undertaking of separate studies on specific issues and on the structural changes in the international mineral industry; and finally, the organization of a joint interregional meeting of experts, to take place in early 1992, which will draw conclusions from the preceding work elements and formulate policy recommendations.

It is expected that the experience obtained through the MINDEV project will provide the basis for a continuing programme of policy development for the non-fuel mineral sector. It should focus particularly on policies designed to stimulate the establishment of backward and forward linkages, to attract investment on appropriate conditions and to ensure the economic and ecological sustainability of mineral sector projects.

To promote diversification, UNCTAD is developing, on the basis of consultations with potential beneficiaries and with competent international agencies, a new institutional mechanism to bring together the experience of these agencies and of other public and private bodies and to sponsor specific investment projects in the commodity sector.[1] Special attention is paid to the needs of low-income commodity-dependent countries. The programme will involve an assessment of the potential of the commodity sector followed by an identification of viable projects, in particular for the local processing of commodities, including in terms of export prospects. It will also assist in finding sources of finance and in identifying investment partners, as well as provide advice on policies and on government support services. The first phase of the programme will be launched in a few months' time.

UNCTAD is also preparing to provide for exchanges of experience and training on commercialization policies, including the role of risk management instruments in marketing strategies. The first activity, a seminar on *Politiques Commerciales et Utilisation des Marchés à Terme et d'Options par les operateurs des pays producteurs (café-coton-cacao)* will take place at the end of May as part of UNCTAD's TRAINFORTRADE programme *(see UNCTAD Bulletin, September-October 1990, p. 10)*. Another activity involves assistance to developing countries, especially those heavily dependent on a limited number of agricultural commodities for their export earnings, in developing or revising commodity-related export policies and for promoting ancillary service activities related to these exports. Further projects in the area of commodity export policies, including policies to encourage private enterprise, are being considered.

[1] *The initiative derives from suggestions made at UNCTAD VII for a round table to promote investment in this sector.*

Finally, UNCTAD will be carrying out a project, with UNDP support, entitled "Support to the Commodity Trade Sector of the African Region and Improvement in Commodities Policies". It includes activities designed to strengthen and upgrade the technical competence and institutional capacity of African governments in planning, designing and implementing effective commodity policies and export programmes including those leading to increased intra-African trade. Some aspects of co-operation, such as assistance regarding access to information, as well as trade among neighbouring countries will be of particular concern to the private sector.

**Import Management and Policies for Food Commodities**

Many developing countries, particularly the least developed ones, are deeply concerned about their deteriorating food situation and the need to spend increasing amounts of foreign exchange on food imports. In most of them, such imports are undertaken by governments, either directly or through parastatal bodies. Whereas transnational food-exporting companies and grain boards in the developed exporting countries have a long experience in cash and futures trading, many governments in developing countries lack the information, skills and expertise necessary to purchase food from abroad. This leads to inefficiencies in import procurement and to higher import costs, with a resulting loss of scarce foreign exchange.

In order to assist food-importing developing countries in improving their import management and their policies in the context of national food plans and to reduce the foreign exchange costs of food imports, including the diversification of sources of supply, the UNCTAD interregional service on Import Management and Policies for Food Commodities provides advice to governments, parastatal organizations, chambers of commerce and the private sector on:

- International procurement of food commodities, including grains and rice, sugar and vegetable oils and cakes (e.g. market information procurement planning, tender terms and procedures and contract design).
- Import policies and pricing, including evaluation of governmental food import systems; assessment of effects of liberalization of food imports and pricing of food; import controls and inspection requirements; and government-to-government food contracts.
- Alternative sources of supply, by preparing market reports, exchanging trade information, facilitating trading contacts, and advising on contract negotiations.
- Fellowships and training with commodity trading corporations, grain boards and inspection companies.
- Seminars/workshops to exchange experience and to provide training on international food procurement and exploitation of new trade opportunities, especially among developing countries.

**New Initiatives**

Apart from the projects described above, UNCTAD is currently developing new technical co-operation activities in the field of commodities. For example, a project is being designed to expand the production and international trade of environmentally-friendly products, notably agricultural commodities, in developing countries. It includes an emphasis on small and medium-sized producers in poor rural areas, the creation of opportunities for foreign direct investment in connection with the local processing of commodities, the promotion of a greater awareness of the environmental benefits for users of certain commodities and a large training element. Another project presently taking shape in connection with international trade in commodities and the environment is designed to establish links between market conditions and intensity of resource use, especially environmental effects. The objectives of this research proposal are to identify policies which will ensure that international commodity trade promotes sustainable development by taking full account of environmental implications. The project would involve the preparation of four separate studies on agriculture, mining, fisheries and forestry.

Another novel activity concerns the establishment of a Microcomputer-based Commodity Information and Analysis System (MICAS) to provide developing country governments with an improved basis for taking decisions regarding investment, marketing, diversification and formulation of general commodity policies.

UNCTAD is also in the process of designing a number of project proposals which seek to develop a higher participation of local and international enterprises in priority commodity areas through the development of regional investment information and promotion services. The latter would seek to encourage investment through business partnerships and joint ventures among producers, processors and distributors of primary commodities.

---

*Further information on UNCTAD's technical co-operation activities may be obtained by writing to the Chief, Joint Technical Co-operation Unit, UNCTAD, Palais des Nations, 1211 Geneva 10, Switzerland.*

## DEVELOPING COUNTRY AUTO INDUSTRY'S EXPORT SUCCESS

Against a background of major structural changes in the automobile industry worldwide during the 1980s, developing countries achieved a rapid expansion in the production and exports of cars and components, establishing a firm foothold in the world market in the process. Their share of international trade in these items grew over the decade from 1 per cent to almost 5 per cent in 1990. At the same time the number of developing countries successfully operating at the world level also increased.

The take-off point for several countries occurred around the middle of the decade. The aggregate car production of developing countries in fact experienced an annual average growth rate of 10 per cent between 1985 and 1990, compared with about 2.3 per cent for the industrialized countries. The eight major developing country producers turned out almost 2.5 million cars in 1990, about twice the production of the United Kingdom.

This aggregate performance of developing countries, however, masks a wide range of individual country experiences. The Republic of Korea, Turkey, Taiwan Province of China, and to a lesser extent also India and Yugoslavia achieved dynamic growth over most of the decade. Car production also picked up during the past couple of years in Mexico, Malaysia and some smaller producer countries after a long period of stagnation. On the other hand, Brazil, once the major developing country producer, Argentina and several African countries amongst others have experienced a sharp contraction.

To a large extent, these divergent production trends reflect significant differences in patterns of domestic demand. During the second half of the 1980s, for example, new car registrations picked up rapidly in the Republic of Korea and some other South-East Asian countries. On the other hand, the restrictive demand management policies pursued by most Latin American and African countries had a strong contractionary effect on their automobile industry. More recently, labour conflicts, steep wage rises and currency appreciations have also created problems for the industry in the Republic of Korea and in other producer countries, negatively influencing their international competitiveness.

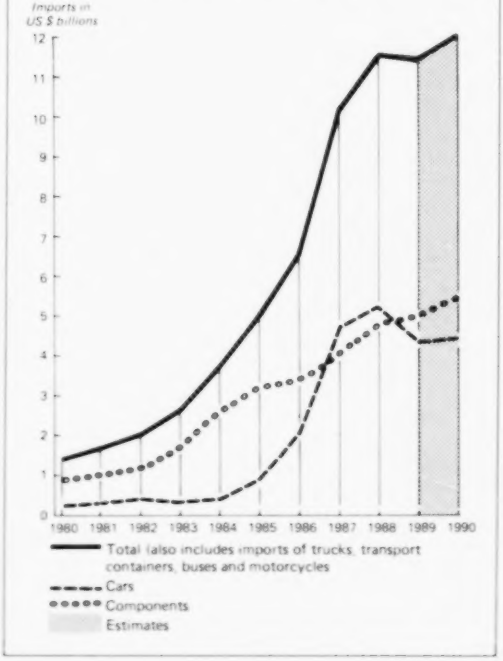
### Strong Export Growth

The outstanding achievement of developing countries during the 1980s, however, has been the rapid growth of exports, mainly to North America *(see chart)*. The value of exports by the automobile sector as a whole, that is both cars and components, grew by more than 20 per cent annually over the decade, or about twice as fast as world exports, making the automobile industry one of the most dynamic export sectors of developing countries.

As the chart shows, this export success is largely attributable to car exports which grew by 13 times between 1984 and 1988. A set-back was experienced in the following two years, however, when developing country producers lost about one quarter of their sales. These car exports are largely accounted for by four countries, viz. the Republic of Korea, Mexico, Brazil and Yugoslavia. More recently, a few other countries have successfully entered the world market, though on a more limited scale. They include India, Malaysia, Thailand, Turkey and Taiwan Province of China. Exports of car engines have followed a similar trend of rapid expansion from the mid-1980s up to 1988, followed by stagnation in the next two years. The major exporters of engines tend to be the same countries which account for the bulk of car exports.

Developing country exports of other car components have, on the other hand, achieved a less spectacular but nevertheless vigorous and

**DEVELOPED COUNTRY IMPORTS OF CARS AND COMPONENTS FROM DEVELOPING COUNTRIES, 1980-1990**



consistent growth throughout the 1980s, averaging almost 20 per cent annually. As the chart shows, exports of components have shown more resistance than cars to fluctuations in the global demand for cars and to domestic economic and social problems in the exporting countries. Also, the manufacture of components can be successfully undertaken in a wider range of developing countries than is true of cars. While the four major producers/exporters of cars, together with Taiwan Province of China, also account for the bulk of components exports, about 90 per cent, a number of others have achieved annual export values ranging from US$10-90 million in recent years. These include Morocco, Tunisia, India, Malaysia, Philippines, Singapore, Thailand, Turkey, Argentina, Chile and Venezuela.

**Export Success Explained, Weaknesses Persist**

The automobile industry has for a long time been considered by many developing countries as a strategic industry. High hopes had been placed on its potential for generating growth, exports and multiplier effects on the economy as a whole. However, in but a few countries, and only during the latter part of the 1980s have such hopes been fulfilled. As for the contributing factors, while growing industrial maturity and improved financial, managerial and production capabilities have played a significant role, these do not alone explain the recent export successes of certain developing country car producers. In all cases international co-operation with major transnational companies has been an essential factor for the development of an export potential. The extent and forms of such co-operation have varied widely, from traditional direct investment by a transnational corporation in a developing country subsidiary to selective forms of co-operation arrangements such as product development and licencing, the transfer of production technology, the supply of motors and other major mechanical components and export marketing.

In all cases of successful car exporting ventures by developing countries, foreign companies provided the car models. As a rule these have been models whose marketability had already been proved and which satisfied all the quality, safety and environmental standards required. In exchange, foreign partners have sometimes engaged in equity participation, as is the case with some Asian enterprises. Latin American car production, on the other hand, is wholly or mainly owned by foreign companies.

Much of the export marketing of cars made in developing countries is also carried out by the foreign companies under their own brand names. Only in a few cases have indigenous companies attempted to build up their own export marketing network. The two main examples are of Korean and Yugoslav car manufacturers. Though initially successful, they encountered serious problems when the demand for cars in the United States dampened and competition increased. Insufficient flexibility to adjust car models rapidly to changing customer needs and to ensure an adequate marketing and servicing network were two major difficulties. Coupled with major domestic problems, these factors led to a substantial drop in sales in the American market. From a peak of US$4.4 billion in 1988, or 9 per cent of total United States car imports, overall exports from developing countries to this market fell to US$3.5 billion in 1990 and a share of 7.4 per cent. Reliance on a single car model or range has been a major risk factor. Over concentration of developing country exports on the large, but highly saturated and competitive American market has constituted another major weakness. Efforts are now increasing, in the Republic of Korea for example, to diversify export markets and to increase reliance on domestic markets. Also, attempts are being made to design new car models, but this process is likely to imply an experimental phase.

Supply factors have also played an important role in improving the international competitiveness of the car industry in certain developing countries. Export-led development of production, for example, has permitted the Republic of Korea and Mexico to attain output levels comparable to those of medium-sized developed country producers. Substantial new investments in recent years have, moreover, upgraded technology and improved productivity.

Government policies have also intensively supported the automobile industry in developing countries. High import protection, tight local content rules, industrial capacity licencing and investment regulations and incentives were designed to foster production, enhance vertical integration and specialization and promote economies of scale. The Republic of Korea in particular has developed a comprehensive sectoral programme to stimulate the development of a large-scale, export-oriented automobile industry. Several other developing countries have also adopted special measures to increase the export orientation of existing industries through a variety of import, foreign exchange and fiscal incentives. Very recently, however, many countries have reversed these policies and reduced or removed import, investment and other restrictions in order to enhance the efficiency of this industry.

Clearly, future prospects for car exports by developing countries hinge on their capacity to develop and adjust their products continuously to rapidly changing consumption patterns and to international quality, environmental and technical standards. An ability to react early to changes in major markets is also very important, as volume growth in the North American and European markets is likely to be slow. In view of these exacting requirements, large-scale exports of cars are likely to remain limited to a narrow range of developing countries having a large, solid and dynamic domestic market base as well as companies possessing substantial technological, financial and export marketing capacities.

**The Components Industry: Trends and Prospects**

The increased importance and efficiency of the car components industry of developing countries is best reflected in the doubling of its share in developed country imports of components from 3 per cent in 1980 to about 7 per cent in 1990. Indeed, in recent years exports of components have overtaken car exports in value terms, with the exception of the Republic of Korea where the latter continue to overshadow an incipient export production capacity for motors and other components. For many developing countries, however, components production offers a realistic opportunity for participating in the automobile industry and for creating a solid export base.

Traditionally, the production of car components in developing countries has been mainly oriented towards meeting the needs of domestic car assembly plants and the replacement market. The rapid export growth achieved by the components industry in the 1980s certainly benefitted from the export success of the domestic car industry. Such exports contributed to upgrading the technological and quality standards of components. Another major factor has been the changing strategy of transnational corporations in favour of a greater decentralization of their previously highly integrated and self-sufficient production system, and therefore towards an increased reliance on specialized component firms, in order to reduce costs and increase international competitiveness. This change has given rise to various forms of international collaboration with foreign firms, including joint ventures, sub-contracting, production co-operation and licencing arrangements. In the process, some components production capacity was relocated to developing countries. This explains a good part of the strong rise in imports of components from developing countries during the 1980s by the United States, Canada and the EC.

The number of collaboration agreements and joint ventures between foreign firms and components producers has multiplied in recent years in the Republic of Korea, Yugoslavia and other South-East Asian, Mediterranean and Latin American countries. These factors have been particularly relevant for the bulk of developing country exports which consist of technologically less complex and standardized components. A few countries have, however, also become important exporters of more advanced components: engines and parts constitute by now about one quarter of the overall exports of their automobile industry. In this case, however, exports largely originate from wholly-owned subsidiaries of transnational corporations.

A particularly important reason for the sourcing of car components in developing countries is their labour cost advantage over developed countries, bearing in mind that in the case of components labour costs may account for up to one third of total production costs. In spite of recent sharp increases, labour costs in the Korean automobile industry corresponded in 1988 to still only about one sixth of hourly rates in the United States. After several currency depreciations, labour costs in the major Latin American producers, and particularly in Mexico, have tended to become even lower than in the newly industrializing countries of Asia.

Looking ahead, current consumption and market trends appear to offer favourable prospects for a further dynamic development of the car components industry in developing countries. Global demand for components is likely to grow faster than for cars, since in some major developed countries the car market is approaching saturation. The trend towards safer and more comfortable cars, the spread of mandatory car controls, measures to protect the environment, as well as the introduction of a range of additional equipment into standard models are factors which will favourably influence the growth of components production. On the other hand, technical progress and higher emphasis on quality should prolong the life of components and make for shorter replacement cycles. On balance, it is expected that, for example, the European market for components will grow in volume terms at a rate of 3-4 per cent annually over the longer term.

Developing countries would, therefore, seem to have their main export prospects in the area of components. They should be able to secure a share of the expanding global market, as well as to benefit from the incipient expansion of car ownership in certain developing countries. The

main tendencies and factors outlined above should continue to contribute to this process, in particular the importance of labour cost differentials and the growing pressures on transnational car producers to reduce production costs, including through the sourcing of an increasing proportion of their components requirements in lower cost countries. A major factor for lasting export success, however, will be the ability of developing countries to upgrade the technological and managerial capacities of their components producing companies to the levels needed to meet the challenge of rapidly rising standards worldwide.

*A more detailed analysis of the trends highlighted in this article is contained in the secretariat study on "Structural changes in the automobile and components industry during the 1980s with particular reference to developing countries" (UNCTAD/ITP/46).*

## CONFERENCE PREPARATIONS TAKE SHAPE

Substantive preparations for UNCTAD VIII have been continuing on the basis of the provisional agenda agreed upon last October and featured in the previous issue of the *Bulletin*. The timing of some planned activities, however, is being rescheduled following the change in the venue and dates of the Conference. In February the Secretary-General of UNCTAD informed member States that, for logistical reasons, Uruguay had withdrawn its offer to host UNCTAD VIII in Punta del Este next September. Following extensive consultations, the new President of the Trade and Development Board, Ambassador Emilio Artacho Castellano of Spain, was able to announce during the Board's spring meeting in March that the Government of Colombia had offered to host the Conference. The Board subsequently adopted a decision recommending that UNCTAD VIII be held in Cartagena de Indias, Colombia, from 8-25 February 1992, preceded by a two-day senior officials meeting. This recommendation has since been submitted to the United Nations General Assembly and adopted.

The preparatory process is intended to construct the basis for the negotiation of the final outcome at the Conference itself. The current phase of the process is aimed at creating an increased awareness of the major issues in the various areas included in the agenda, bringing about a convergence of views among the different groups of countries on the diagnosis of these issues, and identifying options for the requisite policies and measures.

The process includes intergovernmental discussions at various levels as well as activities organized by the secretariat. At the intergovernmental level, meetings are envisaged of various country groupings. These will include separate regional meetings of African, Asian, and Latin American countries, followed by a meeting of the Group of 77 at ministerial level. In anticipation of these meetings, the Group of 77 established a Preparatory Committee which has produced a report on UNCTAD VIII issues for consideration by its members. The objective of this exercise is to elaborate a common position of the Group with respect to the substance of the Conference agenda. OECD countries have already begun their own similar consultations.

Within UNCTAD itself, the intergovernmental preparations will focus primarily on the Trade and Development Board's special session which will convene in June and December this year *(see box)*. It is foreseen that an attempt might be made by members to evolve a draft text, or texts, on which the Conference would focus as a possible final outcome. In the secretariat meanwhile, work is proceeding on the Report of the Secretary-General to the Conference, which is expected to provide broad policy orientations for consideration concerning the areas covered by the agenda, as well as on an Analytical Report containing a more detailed examination of major

***PRE-UNCTAD VIII MEETINGS***

- ***24-26 June***
  Trade and Development Board
  (first part of the seventeenth special session)

- ***2-11 December***
  Trade and Development Board
  (second part of the seventeenth special session)
- Group of 77 Regional Group Meetings and Ministerial Meeting
  (place and date to be decided)

***Encounters***
- ***20-24 May***
  "Co-operation between commodity producers and consumers", Moscow

- ***6-7 June***
  "Co-operation among developing commodity producers", Abidjan
- "International governance: trade in a globalizing economy"
  (place and date to be decided)

problems and issues aimed at providing the analytical underpinning for the thrust of the Secretary-General's Report.

The documentation for the Conference will take into account the outcomes of the intergovernmental deliberations already mentioned and of consultations by the secretariat with governments and with relevant organizations. It will also take into consideration the results of a series of informal topic-specific encounters with, among others, non-governmental development actors. Two out of the five planned meetings have already taken place. The first, on *National Governance: the Respective Roles of the Public and Private Sectors in Providing Sustainable Development*, was held in Caracas, Venezuela, from 13-15 February 1991. It was organized by UNCTAD in co-operation with the Secretariat of the Latin American Economic System (SELA) and financed by the Government of the Netherlands. The theme was developed under three main headings, namely, the relationship between the private and public sectors; the responsibility of the public sector for "non market activities"; and the institutional mechanisms for democratic regulation. In each case consideration was given to how the international policy environment can help or hinder national policies.

A second encounter on *International Trade and the Environment* took place in Oslo, Norway, from 28 February-1 March 1991. It was hosted and financially supported by the Government of Norway. Participants discussed three main issues: the impact of trade liberalization on the environment; the adoption of environmental norms and their impact on trade (new comparative advantages and risks of environmental protectionism); and the transfer of resources for environment and development (issue of additionality).

Three more encounters are to be held prior to UNCTAD VIII *(see box)*, as well as a series of meetings with NGOs, parliamentarians, trade unions and enterprises.

## NEW BOARD PRESIDENT

On 11 March the Trade and Development Board elected Ambassador Emilio Artacho Castellano, the Permanent Representative of Spain to the United Nations Office at Geneva, as its President for the remainder of the current session. *(For further information on the office of President of the Trade and Development Board, see UNCTAD Bulletin, September-October 1990, p. 8).*

Mr. Artacho Castellano succeeds Mr. Jean-David Levitte of France, who relinquished his duties to take up a post in the Ministry of Foreign Affairs.

After obtaining law degrees from the Universities of Granada and Bologna and from the Academy of International Law of the Hague, Mr. Artacho Castellano joined the Spanish Diplomatic Service in 1963. At the Foreign Ministry he held the posts of Deputy Director General for United Nations Affairs and Deputy Director General for the Near and Middle East. His overseas postings have included Dakar, Copenhagen, and New York where he was a member of his country's delegation to the United Nations General Assembly from 1968 to 1986 and to the Security Council in 1969-1970 and 1981-1982. He served as Spain's Deputy Permanent Representative to the United Nations in New York from 1981 to 1986, and during this last year also as Acting Permanent Representative. Since being posted to Geneva in 1986, Mr. Artacho Castellano has held the post of Vice-President during UNCTAD VII in 1987 and of the Trade and Development Board a year later. He is married and has two children.

*Emilio Artacho Castellano*

# REVIEWS

### *THE LEAST DEVELOPED COUNTRIES 1990 REPORT*

TD/B/1289

This *Report*, the seventh in the series, reviews socio-economic developments in the least developed countries (LDCs) and progress in the implementation of support measures by the international community, focusing on the situation on the eve of the 1990s. Prospects for the years ahead, including an assessment of the consequences of the Gulf crisis for the LDCs, are outlined. A separate chapter is devoted to a discussion of policy orientations for sustained growth in the LDCs in the light of the Paris Programme of Action for the 1990s adopted by the Second United Nations Conference on the Least Developed Countries. The *Report* also includes four issue-oriented chapters dealing with possibilities for further debt relief in favour of the LDCs; the role of micro-enterprises in these countries; the role of women; and environmental problems. In addition, the *Report* contains an annex showing major socio-economic indicators relating to LDCs.

This edition marks a transition to a report with a specific function related to UNCTAD's role as the focal point in the global monitoring of the implementation of the Programme of Action. Pursuant to the adoption of that Programme and to the relevant decision of the United Nations General Assembly, in fact, the Trade and Development Board is required to review, on an annual basis, progress in its implementation on the basis of information and analyses presented in UNCTAD's annual *Report* on the Least Developed Countries. Work is already under way for the preparation of the 1991 *Report* for this purpose.

### *TECHNICAL CO-OPERATION FOR TRADE AND DEVELOPMENT*

UNCTAD/EDM/JTC/2

This publication combines a brief presentation of UNCTAD's technical co-operation programmes in the context of the organization's overall objectives with a detailed description of the services available to member States through operational activities on the basis of specific projects funded through extra-budgetary resources. A total of 24 activities are identified, grouped around three main programme areas, viz. international trade, financial resources and transport. For each activity the context, objectives and features of the technical co-operation on offer are described. Information is also given on the procedures to be followed by countries seeking assistance. The publication has been produced by the Joint Technical Co-operation Unit of UNCTAD and is available at no cost in English, French and Spanish.

### *ENERGY LAW*

Samir Mankabady
Euromoney Publications PLC
London, 1990, xxviii + 465 pp.

This book attempts to bring together the rules of international conventions, national law and contractual arrangements on three of the main energy sources, namely, oil, natural gas and nuclear energy. It first reviews the events leading to the adoption of international law principles with regard to State sovereignty over natural resources and the continental shelf, international co-operation (OPEC, IEA), the EC energy policy and the British legislation on offshore exploration and exploitation.

Each of the energy sources is then taken up separately. As regards oil, the emphasis is on sale and purchase contracts. Distinction is made between physical oil-trading (long-term, short-term), non-physical oil trading (futures, options, swaps) and countertrade agreements. Issues related to oil transport, insurance and liability for pollution which have given rise to specific legislation are also described in detail, with extensive reference to British and American court cases.

The discussion on natural gas concentrates on safety, liability and transport rules. Natural gas, while one of the more convenient and clean energy forms as far as end-uses are concerned, presents particular difficulties and hazards in its storage and transport. As a consequence, a number of national and international laws have emerged to ensure its safe carriage and storage. These and other topics such as sale and purchase contracts, financing, construction of tankers, pipelines and terminals are analysed.

The part on nuclear law covers two major issues, namely, the general international and British legal framework that governs the development of peaceful uses of nuclear energy and the rules relating to the transport of radioactive materials. The extent of State responsibility is also examined.

# NOTES

### *TECHNOLOGY WORKSHOP ON CREATIVE FINANCING*

UNCTAD was represented at a Workshop on *Creative Financing for Environmentally Sound Technologies* which took place in Belem, Brazil, from 2–7 December 1990. The Workshop was organized by the United Nations Centre for Science and Technology for Development (UNCSTD) and was attended by 82 participants from 21 countries. The purpose of the meeting, called in response to a General Assembly resolution, was to examine proposals for financing environmentally-sound technologies and to prepare a menu of financing mechanisms. While such technologies are readily available in industrialized countries at affordable prices, the contrary is often the case in developing countries. Hence the need to create appropriate means of financing the transfer of these technologies to developing countries. The Workshop adopted the "Belem Declaration" which endorses ten financing mechanisms, namely: an international environment fund, tradable permits, offsets, debt conversions, grants/donations, taxation mechanisms, development assistance, market mechanisms, regional development funds and insurance/reinsurance.

### *CENTRAL BANK GOVERNORS DISCUSS SOUTH-SOUTH TRADE*

Under the auspices of UNCTAD and UNDP and in collaboration with the Government of the Canary Islands, a Conference of Governors and Senior Officials of Central Banks of Latin American and African Countries met in Las Palmas, Canary Islands, from 3–5 December 1990. The Conference reviewed the present problems of trade expansion and economic cooperation between Africa and Latin America and identified remedial measures. The Conference requested UNCTAD and UNDP to elaborate a model agreement on reciprocal trade credit, to promote the establishment of bilateral payments mechanisms, to encourage the exchange of correspondent relations between commercial banks of both regions and to study the feasibility of a guarantee fund, with the support of the Inter-American Development Bank and the African Development Bank, as a mechanism for the functioning of payment arrangements. Requests to UNCTAD and UNDP were also formulated for assistance in the area of export finance.

### *UNCTAD OFFICIAL APPOINTED TO CLIMATE CHANGE NEGOTIATIONS*

The Secretary-General of the United Nations has appointed Mr. Michael Zammit Cutajar as Executive Secretary of the Intergovernmental Negotiating Committee for a Framework Convention on Climate Change, established by the United Nations General Assembly last December. Mr. Zammit Cutajar, a citizen of Malta, has spent several years working in the UNCTAD secretariat since starting his United Nations career there in 1967. Since 1988 he has been in charge of UNCTAD's Policy Development and Communication Service. As Executive Secretary of the Intergovernmental Negotiating Committee he will represent the Secretary-General in its activities, direct the secretariat unit supporting its work and administer trust funds set up to finance the negotiating process. The secretariat will be based in Geneva.

The first of a series of negotiating sessions took place in Washington, D.C. from 4–14 February 1991. The negotiations will seek to secure commitments from governments, particularly those of industrialized countries, to limit and reduce emissions of greenhouse gases causing "global warming", to increase "sinks" for such gases (e.g. forests), to counter adverse effects of climate change (e.g. rising sea-level) and to promote transfers of finance and technology to enable developing countries to fulfil their commitments under the convention. The aim is to complete a framework convention in time for signing in June 1992 during the United Nations Conference on Environment and Development (UNCED) in Rio de Janeiro.

### *UNCED PREPARATORY COMMITTEE MEETS AGAIN*

The second meeting of the Preparatory Committee for the United Nations Conference on Environment and Development (UNCED) took place in Geneva from 18 March–5 April 1991. In addition to government representatives, well over 100 NGOs attended the meeting as well as a large number of intergovernmental organizations and observer delegations. The Committee discussed two sets of topics. Working Group I considered climate change, forests, biological diversity, biotechnology and land degradation; Working Group II discussed oceans and freshwater resources and the environmentally sound management of wastes. Cross-sectoral issues such as the environment and development poverty, technology transfer, financial resources, health, environmental education and institutions were also taken up. Another subject of discussion was "Agenda 21", the programme of

action for the implementation of the principles of the "Earth Charter" which sets out the basic principles "for the conduct of peoples and nations towards each other and the earth to ensure our common future". The UNCED secretariat had prepared some 23 reports on the various subjects under discussion. Decisions were adopted on all the issues under consideration, though amendments could still be made when the third session of the Committee takes place in August 1991 in Geneva.

### *MALTA HOSTS TWO ASYCUDA TRAINING COURSES*

Two six-week training courses on UNCTAD's Automated System for Customs Data (ASYCUDA) were held in Malta recently. The first course, held in February-March, was attended by customs and technical personnel from Malta, Gibraltar, Ghana and Japan. Participants for the second course, held in April-May, came from Bangladesh, Nigeria and Zimbabwe. The computerized customs data entry system is designed to facilitate the processing and clearance of goods through customs and to provide a reliable source of information on external trade. By simplifying and rationalizing customs clearance procedures, it reduces administrative costs and consequently the prices of imported and exported goods. The software is offered free by UNCTAD to governments and regional organisations. *(For more information on ASYCUDA, see UNCTAD Bulletin, May-June 1990, p. 4.)*

### *FORTHCOMING UNCTAD MEETINGS*

- ***May***
  ***10-17***
  Special Committee on Preferences
  (Geneva, eighteenth session)

  ***21-7 June***
  Resumed Session of Review Conference on the United Nations Convention on a Code of Conduct on Liner Conferences
  (Geneva)

- ***June***
  ***24-26***
  Trade and Development Board
  (Geneva, seventeenth special session, first part)

# PUBLICATIONS

- Report of the Committee on Commodities on its fourteenth session (TD/B/1281-TD/B/C.1/316)
- Protectionism and structural adjustment: Information provided by States members of UNCTAD for the annual review by the Board on protectionism and structural adjustment (TD/B/1283)
- Discussion of issues for improved producer-consumer co-operation: Recycling of aluminium cans: environmental and economic aspects, by Rolf Andersson (TD/B/C.1/RM/BAUXITE/MISC.3)
- Report of the meeting of officials of States entitled to attend the Review Conference [Code of Conduct for Liner Conferences] pursuant to paragraph 5 of resolution I adopted by the Review Conference on 18 November 1988 (TD/CODE 2/9)
- Development and improvement of ports: Guidelines for port managers on the use of computers: Computerized information systems for port operations (TD/B/C.4/AC.7/11/Supp.1)
- Review of the implementation, maintenance, improvement and utilization of the generalized system of preferences: Fourteenth general report on the implementation of the generalized system of preferences (TD/B/C.5/134)
- Technical co-operation in connection with the generalized system of preferences (TD/B/C.5/135)
- Incidence of non-tariff measures on imports of GSP-covered products, by Don P. Clark (UNCTAD/ITP/55)
- Transfer and development of technology in a changing world environment: The challenges of the 1990s (TD/B/C.6/153 and Corr.1)
- Trade and development aspects and implications of new and emerging technologies: The case of biotechnology (TD/B/C.6/154)
- Bibliography of documents on transfer and development of technology (TD/B/C.6/INF.2/Rev.7)
- Industrial property protection and technological innovation: A case study of the United Republic of Tanzania, by S. M. Wangwe (UNCTAD/ITP/TEC/17)
- Historical trends in protection of technology in developed countries and their relevance for developing countries, by Alberto Bercovitz-Rodriguez (UNCTAD/ITP/TEC/18)
- Technology indicators and developing countries (UNCTAD/ITP/TEC/19)
- Report of the Second United Nations Conference to Review all Aspects of the Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices (TD/RBP/CONF.3/9)

*UNCTAD documents are available for reference at all United Nations Information Centres and at depository libraries for United Nations publications. The yearly subscription for all mimeographed UNCTAD documents is US$250 including postage. Requests for such subscriptions as well as orders for individual sales publications should be addressed to United Nations Sales Section, Palais des Nations, 1211 Geneva 10, Switzerland.*

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

ISSN 0259-3181

Courtesy of

UNCTAD Bulletin